MONOPOLY CAPITALISM?

FORUM OF FREE ENTERPRISE
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"We are neither omniscient nor infallible, nor are we so rigidly wedded to any course of action as not to alter it if it becomes apparent to us that we are mistaken.

"It is for this reason that we continuously welcome the people of India and our friends abroad telling us when and where they think we are going wrong."

Mr. T. T. Krishnamachari,
Finance Minister, India.

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Industrialization being the paramount need of the country today it is right that society at large should be watchful of the character of the developments which take place in the private sector of industry. The rapid expansion recorded in the last few years is the result of co-operation among all parties concerned. While the co-operative process must provide for constructive and helpful criticism, it is necessary to guard against jumping to conclusions on mere suspicion. An amazing charge sometimes made against private industry is that the whole sphere of industrial operations is characterised by monopolistic exploitation. This is a very serious charge—all the more serious because the use of a technical or scientific word like "monopoly" tends to give it some kind of super-natural validity which the layman cannot question. It is, of course. patently wrong to say that all big industrialists are monopolists. We are now glad to find that a systematic examination of the question has been made at a scientific level in the April/July 1956. issue of the Tata Quarterly. With the permission of the publishers of the Tnta Quraterly, we are re-printing that article.

Changes in the industrial pattern resulting from the programmes and policies adopted for the First Five-Year Plan (1951-56) have come latterly under public discussion. The fulfilment of the production and capacity targets set for the different factory industries is a commonly-known fact; the critical note comes only in respect of certain structural traits which these industries reveal and which must be deemed to be undesirable as long as they last. Briefly stated, healthy competition and the spirit of enterprise seem to be at a discount. The general stimulus to prices and trade derived from a high level of governmental outlay under the Plan has made the problem of demand easier for industry in general, and consequently there is less need for a manufacturer to compete strenuously with others in his field. Similarly, import control has, by lessening foreign competition, tended to provide a sheltered market. Further, Government has generally been anxious that idle productive capacity in an industry is brought fully into use before creating new capacity. Consequently, the incentive for improvement in efficiency in weak. **All** in all, the general market conditions have tended to make commencement or expansion of industrial operations easier for entrepreneurs possessing capital and experience. From this it would seem to follow that the margin of advantage which the established producers in an industry enjoy over others seeking entry into that industry has widened.

From the analytical point of view, the present

situation in India may be compared with that which usually obtains in any country during a period of general boom. In such a period, the volume of current output and the supply of the means of production are short in relation to the volume of demand at prevailing prices, and consequently prices tend to rise. Entrepreneurs who have productive resources ready at hand, therefore, improve their position relatively to (i) other entrepreneurs with smaller resources and (ii) the non-entrepreneurial sections of the community. In respect of the key factor, viz. the general excess of demand over supply, therefore, the present industrial situation in India is similar to that prevailing in an economic boom. The Indian boom, however, which may more appropriately be called a controlled general buoyancy of markets, is a purposive phenomenon which is fully allowed for in the implementation of a socially-based plan for economic development. Policies, like import control, which account for the spurt in industrial activity have been adopted with a social object in view, and care is taken to see that the social cost of development, through higher prices, is kept under control and judiciously distributed.

It is, however, sometimes suggested that the entire sector of "organized industries" has become the equivalent of "monopoly capitalism". This raises a wholly different issue if the term monopoly is used from the analytical, and not the propagandist, standpoint. It is one thing to suggest that, in the present situation, industry earns an easier or more secure reward and quite another day (as the term monopoly would imply) that the industrialists themselves have, through manipulation, brought about a situation which they exploit to the detriment of the social interest. A monopoly comprises one or more of the following elements:

(a) An understanding among the rival producers in an industry for the establishment of monopoly power.

(b) Deliberate attempts to bar entry to newcomers in the field.

(c) Organized effort to drive out, through unfair means, present or prospective competitors.

(d) Deliberate reduction of output with a view to securing abnormally high profits by raising prices.

Each of these elements is unsocial in as much as it constitutes a step for augmenting personal profils with the full knowledge that it injures the social interest. That is why even the attempts to move in such direction are wrong though they might be infructuous in practice. The charge of "monopoly capitalism", therefore, implies that monopoly practices in one form or the other are in evidence throughout the organized sector of industry in India. The present article attempts to systematically examine this charge

In as much as monopolistic tendencies are usually associated with restrictionism or a dog-in-

the-manger attitude, a reference may be made first to the remarkable diversification of industry which has come about in recent years. Before world war II, the only major industries which had grown up to a respectable size in India were cotton and jute textiles, tea, steel, cement, sugar, paper, matches and soaps and oils. Except for steel, cement and jute, all of these were consumer goods industries. The number of units operating in these consumer goods industries was large, and they competed with each other and with the importers. India's greatest deficiency at this stage was in respect of two branches of modern industry, viz. engineering and heavy chemicals. The war provided an opportunity for the exploration of these industries but owing, among other difficulties, to limited availability of imported plant and machinery, progress was slow. Some of the important engineering industries which grew up to a modest size during the war were machine tools, diesel engines, bicycles and sewing machines. Simultaneously, a beginning was made with the manufacture of a few basic chemicals like soda ash, caustic soda and chlorine.

In the immediate post-war years, a few engineering industries like automobiles, ball and roller-bearings, carding engines, ring frames and locomotives and a few chemical-based industries like rayon came into existence. This phase, however, came to a close when, with the ebbing of the post-war boom, investors became diffident. Later, round about 1952-53, after the First Five-Year Plan had made some progress, the diversification trend revived and reacted favourably to the efforts made by the Ministry of Commerce and Industry to promote new industries. **A** variety of fine chemicals, pharmaceuticals and drugs came to be produced for the first time. In the metal products field, the new lines of development in recent years include fresh components of radio receivers, bicycles and automobiles, automatic looms, domestic refrigerators and electric meters, industrial boilers, *etc.*

These numerous engineering and chemical industries represent new lines of development which can be readily distinguished from the consumer goods industries of pre-war India. Besides these, a number of miscellaneous light industries like art-silk, plastics and zip-fastners also sprang up since the war. All these new industries may be said to be the product of the investors' reaction to war-time shortages, post-war quantitative restrictions on imports and Government's active interest in fostering the development of a diversified industry.

Although the diversification of industry is a desirable trend, it must be observed that in most of the new industries the number of operating units is still small.* Since the small number of units may give an *appearance* of monopoly in these industries it must be emphasized that the position reached today is in no sense the result of wilful design or manipulation by the promoters, nor has the progress stopped. Any industry which comes to be established for the first time naturally starts in a small way and its subsequent growth depends on how the pioneering unit or units in the industry actually fare. Where the number of units is small either the industry is of most recent origin or there was not greater scope for the industry in the immediate future, however favourable the long term prospects might be. It must be remembered that in the heavy engineering and chemicals field, the problems involved in the establishment of industries and organization of production are such that a rapid develoment of the kind witnessed in the sugar industry in pre-war days can hardly be expected. Even in a fully developed economy it would be nothing inconsistent with the normal competitive forces if there were fewer automobile plants than bicycle factories and fewer bicycle factories than textile mills. In a country which has innumerable soap factories, it would be really surprising if there were to be as many caustic soda factories.

Actually, in several of the new industries in India, the number of units has multiplied at a pace

*As of 1955, the number of registered units in some of the new industries was as follows:

Ball bearings and water meters **1** each;

Carding engines, domestic refrigerators, industrial boilers and zip fastners **2** each;

Looms, and typewriters **3** each;

Ring frames and rayon 4 each;

Bicycles **32,** of which 22 manufactured only parts;

Automobiles 8 and

Radio receivers 15.

which is a strong indication of the absence of monopolistic tendencies, although the aggregate number to date may still be small in relation to India's *long term* requirements. For instance, in the hurricane lanterns industry, with the increase in capacity from 1 million to 3.6 million lanterns in the period 1947-50, ihe number of units also rose from 6 to 11. In the radio receivers industry, the number of units increased from 2 in 1947 to 11 in 1950. While the number of soda ash plants has remained stationary at 2, the manufacturers of caustic soda have increased in number from 4 in 1948 to 12 in 1953. In diesel engines, the number of units increased from 2 in 1947 to 8 in 1953 and further to 16 in 1955. Plants manufacturing power transformers, which were 4 in 1947, doubled in the next six years. In like proportion the manufacturers of storage batteries increased in number from 7 to 14 in this period.

Related to the question of a small number of operating units in most of the young industries is the question of how far the capacity installed in anticipation of certain trends could, in actual practice, be brought into use. An outstanding feature, and one to which the Planning Commission attaches great importance, is the existence of considerable unused capacity in most of the new industries."

*In some of the old industries like soap also, a considerable portion of the manufacturing capacity could not be profitably utilized at one stage or the other in the post-war period.

According to a note prepared by the Planning Commission, the perecentages of unused to total capacities in the principal new industries in 1953 were: electric fans **34,** radio receivers 63, automobiles 80, bicycles 37, caustic soda 40, super-phosphates 75, wood screws 47, diesel engines 72. The existence of unutilized capacity on this scale is a *prima* facie indication that the number of productive units, instead of being deliberately kept low through manipulation, was in fact larger than was required in the prevailing circumstances.

Idle capacity can, however, exist in a monopolised industry as much as in a competitive industry, and hence it is necessary to state that there is a fundamental difference between how idle capacity comes into being in a monopolised industry and how it has come into being in several industries established in India in recent years. Under a monopoly, idle capacity should be equated to capacity in *disuse*. A portion of the capacity in use at an earlier date is deliberately kept in disuse by a monopolist in order to derive monopoly gains from a restricted volume of output although the entire capacity could have been put into production for yielding a normal rate of profits. Again, when a competitive industry turns monopolistic through amalgamation the capacity owned previously by the weaker units in the combination may deliberately be kept in disuse by the combine. Although the monopolist is prepared to keep a portion of his capacity unutilized, it is to be supposed that even he would not create additional capacity merely for keeping it idle. Therefore, under a monopoly, idle capacity is that which has been unjustifiably transferred from use to disuse.

The idle capacity in Indian industries is of a different character: it represents, not capacity in disuse, but capacity which was installed with every intention of using it but could not be brought into use as the anticipations of market trends went wrong. This capacity is, therefore, excessive capacity in the sense that it is in excess of what could he used for production under the given demand-supply conditions in an open market. About this, the note referred to earlier says:

> Since 1939, a considerable amount of expansion has occurred in various industrial fields. In an unplanned expansion of this kind, it is rarely true that the expansion that is brought about is only of the requisite extent. In a competitive world the different business units plan their schemes autonomously of one another, and while each one responds to a particular stimulus the net result of all their activities would in many cases exceed the required response to the stimuli. Some such process appears to have been working in India during the post-war period.

The manner in which capacity has been built up in the new industries in India is, therefore, an evidence, not of monopoly, but of the opposite of monopoly—individuals making their own expansion plans optimistically and without consideration of what the similar plans of others might lead to. Another indication of the individualistic actions of producers is provided by the following quotation from the Annual Report of the Ministry of Commerce and Industry for 1953-54:

> One of the main weaknesses of the pattern of industrial development in the country has been the tendency on the part of each industrial unit to set up the capacity needed for the entire range of its production. This meant that, even while idle capacity existed in the country for making particular components, fresh capacity of the same type was being created.

A general reflection of monopolistic tendencies, if present, should be seen in the production trend of both old and new industries. Assuming monopoly to be the general characteristic of the capitalist enterprise in India, it should show itself in widespread attempts to curtail production as a means of exploiting the market. Actually, this is far from what has happened. In almost all the industries, old and new, the production at present is substantially higher than at the end of the war or even at the time of launching the First Plan. It is noteworthy that the relative increase in the new industries (excepting machine tools) is, despite the small number of operating units, greater than in the old industries.*

Apart from the substantial increase in production which has been recorded, a fundamental point

*The index numbers of production for 1951 and 1955, with 1946 as base, for the principal old and new industries to be observed is that the production-trend has reacted in a "normal" fashion to the market conditions—it does not carry the impress of collusive manipulation by the producers. To give a summary account of the overall trend, it may be mentioned that for some time after the war production was falling and, by 1947, the decline was "disquieting". The determined effort made jointly by capital, labour and the Government to overcome the impediments to production steadily bore fruit and in 1948 practically all the industries produced more than in 1947. The improvement continued subsequently. In 1950, production reached a peak in **30** engineering industries and the decline in 13 others was due partly to a sudden mis-calculated influx of imported goods and partly to inadequate supplies of imported raw materials. In 1951, after the outbreak of the Korean war, the only limiting factor was the shortage of the basic raw materials. Examining the industries in which there was a

are:—

	1951	1955		1951	1955
Old industries	1946=100		New industries	1946=100	
Cotton textiles	101	127	Mchine tools	52	82
Jute textiles	80	94	Diesel engines	1532	2124
Steel	116	132	Bicycles	266	1143
Cement	207	286	Sewing machines	726	1658
Paper & paper boards	124	174	Electric motors	311	549
			Soda ash	396	644
Matches	140	147	Caustic soda	508	1181
Sugar	121	173	Super-phosphates	1356	1598

decline in production in 1951 the Report of the Ministry of Commerce and Industry for that year said that the deficiency, in their case, "was not due to any lack of demand for the product concerned, or to any organisational defect of the industry concerned but mainly to lack of an adequate supply of the raw material concerned." In 1952, a recession in prices and demand made the maintenance of production difficult for several industries. "In spite of the many difficulties and the set-back experienced by particular industries," however, the general level of production was the highest since the war. Presently, the fear of depression gave way to "sober optimism" resulting in "record levels of industrial production" in 1953. Widespread lifting of controls was made possible by the high levels of output. In *a* few industries where production declined there were "some special difficulties" like strikes and power cuts. The "climate" for development of industry steadily became more favourable in 1954 and 1955 and there was a "considerable increase in the scope as well as tempo of industrialisation." In many industries, the production targets set for the First Plan were exceeded. This all-round increase in production made it possible for the Second Five-Year Plan to proceed on the assumption that substantial further expansion was feasible in the near future.

Having examined some of the basic trends such as the rise of new industries and the behaviour of production and capacity-build up, it is now necessary to see specifically whether monopoly practices can be deemed to exist in Indian industry and if so in what sector. Monopoly practices, which were defined earlier, may be said to fall broadly into two divisions. The first represents creating conditions for monopoly—barring entry to new-comers, unfairly eliminating competition through uneconomic price cuts, etc. The second represents exploiting a situation so created—restricting production, raising prices, etc. This two-fold division puts the question of prices in the right perspective. A would-be monopolist cuts down prices, without a justifiable reason, solely to drive out of business the weaker units in the industry. After eliminating competition in this manner, prices are raised sharply above normal profit levels, and the loss of revenue in the earlier price cuts is more than made up. Movements of these kinds are the characteristics of "monopoly pricing". In the examination of recent price-trends in India, therefore, evidence of monopoly practices is to be looked for in such manipulated price-changes.

Under the Industries (Development & Regulation) Act, 1951, establishment of new undertakings in any industry or the expansion of any existing unit requires a licence from the Central Government. Whether the Indian industrialists attempted to bar entry to new-comers may, therefore, best be examined in connection with the licensing system in operation since 1951. The licensing procedure adopted in 1951 is an instrument of policy appropri-

ate to a planned economy and is designed primarily to be a corrective rather than a restrictive force. Often it is on account of particular features in the schemes which come before it for approval that the Licensing Committee rejects those schemes—and here the idea is really to give investors some guidance in the formulation of industrial projects in the national interest. Similarly, by sanctioning schemes in one industry more readily than in another it seeks to influence the pattern of capital-flows.

The Licensing Committee is wholly manned by Government officials. The refusals of applications by this Committee are subject to review by a 9-member Sub-Committee of the Central Advisory Council. Four of these members represent organized industry and labour. The composition of these bodies makes it clear that established producers have no material influence over the licensing of new schemes or expansions. Further, the grant of licences is not made on an arbitrary basis; the decisions have to be in conformity with certain principles of general applicability. In the five years since licensing became compulsory, only such applications were rejected where the existing capacity was well in excess of the estimated requirements of the country or where there were other objections such as non-availability of transport, unsuitability of the terms of collaboration with foreign interests etc.* The conclusion is that the licensing system does not constitute an evidence of monopoly practices in as much as thr established producers have no part in denying a licence to a new unit, and such denial is not based on monopoly-profit considerations for such producers. Although the position in this respect is self-evident, an attempt may be made to see how far, as a matter of fact, the licensing system has suppressed competition and in what branches of industry.

Statistics relating to industrial licences set out in the annual Ministry Reports are not sufficiently consistent and detailed to permit a satisfactory analysis but the broad indications about policy they provide may be mentioned. In the three years to 1955, the Government disposed of 1,440 applications for licences. The total number of licences given was 1,142 made up as follows:

Setting up new production units ("New Schemes")	363
Expanding capacity of existing units ("Expansion Schemes")	657
Organizational changes without additional capacity ..	122
	1,142

Applications were refused in 298 cases. Although the necessary statistical details are not available, it would appear that rejections bulked largely in those industries which, in 1951, in the opinion of the Planning Commission, possessed adequate or more than adequate capacity. This is a 'heterogenous

*Vide Reports of the Ministry of Commerce and Industry for 1953-54 and 1954-55.

group comprising old and new and consumer and producer industries. In this group (which may be called the "restrictive group"), there were 841 applications in the three years to 1955. Out of these, licences were given in 605 cases, which may be compared with the total number of licences for all industries—1,142. Licences were, therefore, not granted in 236 cases. In as much as the aggregate rejections were 298, it is almost certain that more than two-thirds of the rejections were in the restrictive group. The position in respect of some of the prominent industries in this group may be stated in brief.

In the *vanaspati* and *soap* industries, the installed capacity in 1951 was supposed to be in excess of requirements. A large proportion of the applications was, however, consented to though the additional capacity was not substantial. In vanaspati 40 out of 78 applications and in soap 8 out of 10 applications were granted. In the *sugar* industry, 2 new factories were under construction in 1951 and a few others were considering expansion. This addition to capacity was thought to be more than enough, and the Planning Commission recommended that there should not be any fresh schemes. But, after 1953, the production of sugar apeared to be insufficient and consequently a larger number of applications was entertained. Out of 121 applications in all, licences were given in 87 cases (38 new schemes and 49 expansion schemes). In cotton ***textiles,*** the Planning Commission was contemplating restriction cnly on weaving capacity. It was proposed that no looms, in addition to those covered by the schemes , which the mills had already drawn up in 1951, should be allowed. This policy seems to have been pursued and although in all 222 licences were given on 281 applications, these licences presumably related to spinning and the existing schemes for weaving. In two industries, sewing machines and cement, the Planning Commission was satisfied that the schemes under consideration in 1951 would provide all the additional capacity required during the period of the Plan. Actually, the number of applications in these industries was small and the schemes approved related mostly to expansion of existing units. In sewing machines, **3** out of 8 schemes and, in cement, 49 out of 65 schemes were approved. In the bicycle industry, too, the Planning Commission had recommended that no schemes other than, those which the industry had under consideration in 1951 were necessary. But another factor which came into play was the desirability of encouraging production of bicycle parts on a small scale. This meant that exansion schemes drawn up by the large scale industry should not be consented to as readily as might have been otherwise done. Out of 44 schemes which came before the Licensing Committee only 26 were approved. Among these, 10 were new schemes and 16 expansion schemes. The Planning Commission took a stand against further expansion in the *sulphuric* acid industry and in the secondary production and fabrication of iron and ***steel*** mainly because of shortage of raw mate-

rials, viz. sulphur and steel. On the other hand, in the alkali industries—soda ash and caustic *soda*—the Commission emphasized the desirability of new units of production being started but no important schemes in these industries came up before the Licensing Committee.

The foregoing analysis of the working of the licensing system in the past three or four years suggests that so far as it operated in a restrictive manner the reason for that policy is to be looked for chiefly in the attitude which the Planning Commission took towards the development of certain industries which had already established substantial capacity before the commencement of the Plan. The licensing system is likely to have been instrumental, in some measure, in suppressing competition but the strength of this tendency cannot be indicated. On the other hand, since a substantial proportion of applications even in the restrictive group of industries was consented to, the adverse effect on competition is not likely to have been large in practice. It would apear that in other industries, *viz.* those in which the Planning Commission desired substantial expansion, the Licensing Committee was ready to sanction all schemes which came before it, provided there was nothing objectionable in them otherwise. Taking industry at large, the restrictive effect of the licensing system is, therefore, likely to have been of a modest order. In any case, it may be repeated, the operation of the licensing system, in so far as it was restrictive, cannot be taken as an indication of the adoption of monopoly practices by the industrialists themselves.

In regard to prices, the question to be examined is whether the periodical changes, where they have occurred, are unnatural in the sense of being inexplicable in terms of normal demand and supply conditions and reflect the exploitation by industrialists, for monopoly gains, of a situation created by themselves with that end in view. No detailed discussion being possible, all that can be attempted is a qualitative analysis of the principal segments of the universe of industrial prices. Prices of goods manufactured at home may conveniently be classified according to following groups of industries:

(i) Closely regulated key industries;

(ii) Young protected industries; and

(iii) Old established ordinary industries.

Under the statutory price-control, effective for about 15 years, monopoly-pricing has been clearly out of the question for industries in the first category, which includes steel, cement, locomotives, etc. Coal-mining may also be said to fall in this class. The Government not merely fixes the prices which the industries in this group can earn but also arranges for the distribution of their products among consumers. There has never been a difficulty in disposing of the entire output; evidently, the interest of each producer lay in turning out as much as he

could. These industries have naturally expanded their production and the smaller units have strengthened their position. The output of steel increased from 843,000 tons in 1939 to 1,207,000 tons in 1955, while the share in this of the largest unit, *viz.* Tata Works, declined from 88 per cent to 66 per cent. Likewise, while the total output of cement increased nearly threefold in this period, the share of the Associated Cement Companies is believed to have declined from some 74 per cent to 54 per cent. In the manufacture of locomotives, carried on at present in one private and one Government shop, monopolistic manipulations of prices are inconceivable. It is necessary to point out that price control in these industries does not by any means lead to higher than normal margin between revenue and costs. On the contrary, price-control places a ceiling on profits at a level lower than that to which they might rise in a free and competitive market under favourable demand conditions.

In respect of goods manufactured by the young protected *industries,* limitation of foreign competition tends to make the domestic prices higher than they would otherwise be. This is, however, the consequence of a well-ordered deliberate policy. In each case, the Tariff Commission holds a public inquiry and stipulates a level of prices which is considered to be "the norm" because it affords a reasonable ex-works margin of profit to the industry in question. The tariff duty levied on foreign imports is so adjusted that the domestic producer should, ordinarily, earn only a reasonable or "fair" ex-works price. If following a rise in consumer demand and import prices a manufacturer charges more than the "fair" ex-works price, with no other justification than that in the prevailing conditions he is able to do so, he is technically considered to be taking "undue advantage of protection" by charging "excessive" prices. Even such "excessive prices" are not, however, the equivalent of monopoly pricing. A manufacturer in a protected industry who charges "excessive" prices (*i.e.* higher than fair ex-works prices without any increase in works cost) is like a manufacturer in any competitive industry who raises prices simply because demand has improved relatively to supply. A protected industry, which is required not to charge "excessive" prices, is, therefore, expected to behave better than an industry which, functioning under competitive conditions, is under no obligation about prices.

Actually, leaving aside the case of a single industry, *viz.* the rubber tyres industry*, the records of the Tariff Commission indicate that the protected industries as a group did not seek undue advantage of their position. There was no mischievous manipulation of prices. In 1952, a complaint of "excessive prices" being charged by the plywood and tea-chest industry was lodged with the Commission, but on examination nothing came of it. Six of the young protected industries, including sewing machines and hurricane lanterns, succeeded in expanding production and reducing relative prices in such manner that it was possible to discontinue the protection against foreign competition granted to them. In some other industries like heavy chemicals and machine screws, the year to year fluctuations of the volume and prices of imports were such that the domestic producers did not always secure the measure of protection intended for them. There were also cases where the actual works costs rose higher than those estimated by the Commission and the consumer's prejudice against the home-made article proved strong. To take an overall view, the continued existence of substantial unutilized capacity in the majority of the young protected industries suggests that protection was not sufficiently effective for them or that the intended price-margin was not accruing in practice.

*According to the Tariff Commission, this industry, which comprises 4 associate companies of foreign enterprise, is "so organised that the producers have to act in unison in their own interest." It "provides a typical instance of an oligopoly which, so far as prices are concerned, functions virtually like a monopoly!'

The real trouble about the young protected industries is not the high prices they charge but the poor quality and workmanship of the products they make. Time and again, the Tariff Commission has drawn the attention of industrialists to this fact. Although some industries like the dry battery industry have made great improvement in this regard. unsatisfactory standards reached by domestic manufacture continue to be the principal drawback of a policy which seeks to stimulate the rise of new industries over such a vast field and in such **a** short time.

The last sector of industries to be referred to ccmprises besides jute, the old established consumer goods industries like cotton, sugar, tea, soap, paper, matches, etc. As compared to the other two sectors discussed in the foregoing, this is a field of activity which comes the least under the influence of the State, whether in respect of aid or of control. The industries are largely thrown on their resource and their prosperity is made and unmade by market conditions. Prima facie, it is to be expected that the price-trend would be the autonomous result of the normal working of demand and supply forces from time to time. The question, therefore, is whether there have been any abnormal "kinks" in the price-trend indicative of manipulation by a monopolist.

Leaving aside the sharp rises in the prices of sugar and cotton manufactures after the removal of war-time controls in 1949-50, which is an illustration of what happens when a Government proceeds to substitute the market-mechanism for a controlled structure without taking all the steps logically required for such a policy, there is hardly any feature in the price behaviour of this group of industries which, even in appearance, resembles monopoly-pricing. In fact, it is difficult to see how there could be monopoly-manipulation of prices in this sector

since collusive action among the different producers is, at no stage, visible or remotely indicated. **As** regards collaboration among producers, jute, which is an export industry, stands on a special footing among old-established industries but even here collaboration is limited to uniform sealing of a given percentage of looms with Government approval in certain contingencies. The price of jute textiles is set by international forces, and no production-unit in India can, or seeks to, influence it. Likewise, in the domestic markets the prices of goods manufactured by the other old established industries are the result of true and ample competition. The elements of monopoly-pricing—establishment of monopoly-power by eliminating competition and the use (rather abuse) of that power for securing abnormally high prices on a deliberately reduced turnover—are absent from the multi-unit competitive industries under consideration here.

In the commodity markets of India, as of any other country, the products of particular manufactures or particular "brands" are the "leaders", but this situation must be distinguished from the case of a monopoly. Under conditions of increasing demand, the "leader-brands" usually go up in price first and, under contrary conditions, they fall in price last. This only means that some manufacturers, because of the comparative popularity of their products, are in a position to derive greater benefit from the market conditions. Unless, however, competition is eliminated the "leader-manufacturers" could not be said to have indulged in monopoly-practices. In several industries, the "leader-manufacturers" are foreign owned businesses, but the result of their operation in India has been an intensification, rather than suppression, of internal competition. In its report for 1953-54, the Tariff Commission, too, referred to fears "expressed by Indian-owned units regarding severe competition from foreign-owned units established within the country."

The foregoing survey of the facts relating to the industrial pattern, *e.g.* the establishment of several new chemical and engineering industries in which the number of units is small, recent capacity and production trends, the extent of unutilized capacity, the working of the licensing system and the characteristics of the price trends may be said to have established that the charge of "monopoly capitalism" levelled against the entire sector of organized industry is unwarranted. Since monopoly is suggestive of deliberately unsocial actions this particular allegation is unfair, but *a* more serious matter is that an allegation of this kind, by clouding the issues, impairs the clarity and veracity of analysis. The implementation of development plans in India has undoubtedly some undesirable aspects which must be recognized as such and avoided as far as possible. In the general enthusiasm for speeding up economic development, it is often necessary to single out, for examination, these features and to draw the public's attention to them. The public's indifference should, however, make it all the

more essential, in analysing the present situation, to use concepts which accurately portray that situation. For instance, problems arising out of the decline of foreign competition and the advantage enjoyed by established producers would be more amenable to analysis and solution if it were realized that the industrial pattern in India today is basically different from the phenomenon of a monopoly.

It would be seen that a general improvement in the profitability of enterprise and a greater sense of security regarding demand conditions are the basic tendencies influencing the structure of industry. The factors underlying these tendencies are the curtailment of foreign competition and the impetus to income and prices imparted by Governmental investment. As regards the results, the favourable among them are the rise of new industries at home, increased production by both mechanized and non-mechanized industries, and increased employment and earnings in industry. The unfavourable results are higher consumer prices and an improvement in the relative position of the entrepreneurial sections of the community. This is the theoretical "model" applicable to conditions in India; it does not admit of monopolistic tendencies on a *prima* facie basis.

In proceeding from this "model" to actual conditions, note must, first, be taken of the fact that the Government is not wholly oblivious to the unfavourable features in the situation, as is borne out by the relevant provisions of the Industries (Development and Regulation) Act of 1951 or the Tariff Commission Act of 1951. The Government also 'keeps a watch over the prices of essential consumer articles like foodgrains and coarse cloth, and although the general price level has tended to rise, particularly since last year, the relative increase in the prices of such articles is much less than in the prices of luxuries. In some cases, the levy of sectional excise duties takes away what might be deemed to be the "unearned" increment to profits in particular industries. Price-ceilings have also a similar effect. On a wider plane, the high rates of direct taxation including succession duties are designed to counteract extraordinary accumulations of wealth as a result of earnings in any activity. Finally, Government departments entrusted with the provision of technical and financial aid to industry encourage "outsiders" to enter the industrial sphere and enable new-comers to strengthen their competitive position more speedily than they could otherwise have done. It may be that Government could show greater awareness of the undesirable aspects in the present situation and take more positive measures to counteract them; but to suppose that nothing is being done or that unscrupulous and "acquisitive" capitalists have a field day is flying in the face of facts.

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